

Results of Operations in the Six Months to 30 June 2005

Key performance indicators

Amounts in million EEK

	6 months 2005	6 months 2004	Change
Sales	303.3	278.1	9.1%
Main operating activities	276.6	238.8	15.8%
Other operating activities	26.7	39.3	-31.9%
Gross profit	181.2	146.3	23.9%
Gross profit margin %	59.7%	52.6%	13.6%
Operating profit	139.5	134.9	3.4%
Operating profit margin %	46.0%	48.5%	-5.2%
Profit before taxes	112.4	107.9	4.1%
Profit before taxes margin	37.1%	38.8%	-4.5%
Net profit	77.0	81.6	-5.7%
ROA %	3.3%	3.9%	-13.5%
Debt to total capital employed	58.2%	57.1%	2.0%

ROA – Net profit /Total Assets

Debt to Total capital employed – Total Liabilities / Total capital employed

Income Statement

In the first half of 2005 sales from the Company's main operating activities grew by 37.8 mln EEK, or 15.8% to 276.6 mln EEK. This increase was in accordance with expectations and is largely attributable to the increase in water and sewerage tariffs from 1 January 2005 for the Company's residential and commercial customers. Sales volumes of water supplied and wastewater treated in the residential and commercial sectors grew, year on year, by 1.4% and 2% respectively. Sales volumes of wastewater treatment services provided to surrounding municipalities outside of the services area reached almost 450,000m³ in the first six months of 2005, an increase of 9% on the corresponding period in 2004.

Profits from other operating activities the first half of 2005, primarily connections income, were 2.8mln EEK, a 1.2 mln EEK decrease from 2004 levels.

Cost of goods sold for the main operating activity were held down to 98.2 mln EEK in the first half of 2005, an increase of 1.7 mln EEK or 1.8% from the equivalent period in 2004. With inflation at 3.1% for the twelve month period to June 2005 this is a real decrease and, was achieved by cost savings resulting from improved procurements and processes in the operations activity.

The Company's gross profit for the first six months of 2005 was 181.2 mln EEK, which represents an increase of 34.9 mln EEK, or 23.9%, compared to gross profit of 146.3 mln EEK for the first six months of 2004.

As a result the Company achieved an improved gross profit margin of 59.7% for the first six months of 2005 compared to 52.6% for the first six months of 2004. This reflects the Company's ability to control operating costs and convert the sales growth into improved profit margins.

Other expenses increased by 30.3 mln EEK, from 11.4 mln EEK in the first half of 2004 up to 41.7 mln EEK in first half 2005. This was mainly attributable to the one-off IPO costs incurred by the Company in order to be listed on the Tallinn Stock Exchange.

IPO costs in total were 25.6 mln EEK, being made up of 19.5 mln EEK for professional services and 6.1 mln EEK for the cost of a staff bonus (every person working for the Company received 10,000 EEK bonus).

The Company's operating profit for the first six months of 2005 was 139.5 mln EEK, which represented an increase of 4.6 mln EEK, or 3.4%, over the operating profit of 134.9 mln EEK for the first six months of 2004.

Income taxes increased by 9.1 mln EEK, from 26.3 mln EEK in first half 2004 up to 35.4 mln EEK in first half 2005 as a result of the improved dividend.

The Company's net profit for the first half of 2005, including the impact of one-off IPO costs, was 77 mln EEK, a decrease of 4.6 mln EEK compared to the corresponding period in 2004.

Balance sheet

The Company's total assets were 2,307.4 mln EEK as at 30 June 2005, an increase of 191.9 mln EEK year-on-year. Current assets increased by 88.7 mln EEK

Tangible and intangible fixed assets and asset constructions in progress totalled 1,943.1 mln EEK at 30 June 2005, an increase of 67.7 mln EEK of the fixed asset base in the year, reflecting the Company's investment in assets in order to continually improve services to customers.

Current liabilities increased by 86.0 mln EEK, reflecting an increase in deferred income (45.6 mln EEK prepayment for the sale of fixed assets and a 47.6 mln EEK increase in the current portion of long-term loans). Long-term liabilities increased by 49.6 mln EEK up to 1,104.3 mln EEK at the end of June 2005 mainly due to the final drawdown of the EBRD loan in the value of 109.6 mln EEK in April, which was partially offset by the first repayment of principle on the long-term loan in the amount of 43.7 mln EEK in May 2005.

Cash flow

In the first half of 2005, the Company's cash flow from operating activities was 110.7 mln EEK, a 3.3 mln EEK, or 3%, increase compared to the first half of 2004 reflecting the increased operating profit in the period.

Total cash inflow in the first six months was 35.2 mln EEK compared to a cash outflow of 24 mln EEK in the first six months of 2004. Cash and cash equivalents stood at 136.2 mln EEK as at 30 June 2005, an increase of 76.1 mln EEK from 30 June 2004.

Dividends and share performance

In first half of 2005, the Company paid out a dividend in a value of 112 mln EEK based on the operational results of 2004

Starting from 1 June 2005, AS Tallinna Vesi shares have been listed on the main list of the Tallinn Stock Exchange. At the end of the reporting period, 30 June 2005, the closing price of the AS Tallinna Vesi share was 11.33 EUR, which is a 23% premium on the initial public offering settlement price of 9.25 EUR.

AS TALLINNA VESI

Six months report for the quarter ended 30 June 2005

Currency	thousands kroons
Start of reporting period	1 January 2005
End of reporting period	30 June 2005
Address	Tallinn, Ädala 10
Chairman of the Management Board	Robert John Gallienne
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Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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AS TALLINNA VESI

MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi has prepared the interim accounts for the six months period ended 30 June 2005. The interim accounts are not reviewed by auditors.

The preparation of the interim accounts according to International Financial Reporting Standards involves estimates made by the Management Board of the Company's assets and liabilities as at 30 June 2005, and of income and expenses during the reporting period. These estimates are based on current information about AS Tallinna Vesi and consider all plans and risks as at 30 June 2005. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities until the preparation of the interim accounts as at 15 July 2005 have been assessed as part of this review.

By order of the Management Board



Robert John Gallienne

Chairman of the Management Board

15 July 2005

AS TALLINNA VESI

CONDENSED BALANCE SHEET

AT 30 JUNE 2005 AND 2004 AND 31 DECEMBER 2004

(thousand EEK)

ASSETS	Note	30 June 2005	2004	31 December 2004
CURRENT ASSETS				
Cash at bank and in hand		136 193	60 128	101 000
Customer receivables		53 589	43 840	51 644
Other receivables		3 903	7	66
Accrued income and prepaid expenses		8 129	6 595	3 886
Inventories		3 550	5 663	3 266
Assets for sale		1 562	2 043	1 621
TOTAL CURRENT ASSETS		206 926	118 276	161 483
NON-CURRENT ASSETS				
Shares of associated companies		0	6 145	0
Long-term deposit		78 193	31 749	77 538
Other long-term investment assets		0	2 552	1 330
Tangible assets	2	1 822 843	1 768 267	1 779 897
Intangible assets	2	28 106	19 175	18 460
Construction in progress	2	92 107	87 937	102 634
Unfinished pipelines - new connections	2	75 595	77 539	79 675
Prepayments for fixed assets	2	3 648	3 889	3 648
TOTAL NON-CURRENT ASSETS		2 100 492	1 997 253	2 063 182
TOTAL ASSETS		2 307 418	2 115 529	2 224 665
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term finance lease		1 544	1 935	1 777
Current portion of long-term bank loans		89 744	42 126	87 086
Trade and other payables, incl. dividends		62 834	46 363	55 707
Taxes payable		22 660	43 560	20 534
Short-term provisions		88	2 700	912
Deferred income		62 130	16 353	18 582
TOTAL CURRENT LIABILITIES		239 000	153 037	184 598
NON-CURRENT LIABILITIES				
Finance lease		1 000	2 530	1 685
Bank loans		1 103 217	1 052 096	1 039 192
Other payables		100	100	100
TOTAL NON-CURRENT LIABILITIES		1 104 317	1 054 726	1 040 977
TOTAL LIABILITIES		1 343 317	1 207 763	1 225 575
EQUITY CAPITAL				
Share capital		200 001	200 001	200 001
Share premium		387 000	387 000	387 000
Statutory legal reserve		20 000	93 394	93 394
Accumulated profit		280 089	145 734	145 734
Net profit for the period		77 011	81 637	172 961
TOTAL EQUITY CAPITAL		964 101	907 766	999 090
TOTAL LIABILITIES AND EQUITY CAPITAL		2 307 418	2 115 529	2 224 665

Chairman of the Management Board:



AS TALLINNA VESI

CONDENSED INCOME STATEMENT
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(thousand EEK)

	Note	6 months		Year ended 31 December
		2005	2004	2004
Sales from main operating activities	3	276 572	238 786	478 814
Revenues from other operating activities		26 732	39 272	69 715
Net sales	3	303 304	278 058	548 529
Cost of goods sold main operating activities	4	-98 224	-96 529	-195 486
Cost of goods sold other operating activities	4	-23 888	-35 245	-64 410
GROSS PROFIT		181 192	146 284	288 633
Marketing expenses	4	-3 329	-3 205	-6 134
General administration expenses	4	-41 602	-21 562	-40 739
Other income/ expenses (-)		3 263	13 405	13 158
OPERATING PROFIT		139 524	134 922	254 918
Financial income / expenses (-)		-27 145	-27 008	-55 680
PROFIT BEFORE TAXES		112 379	107 914	199 238
Income tax on dividends	5	-35 368	-26 277	-26 277
NET PROFIT FOR THE PERIOD		77 011	81 637	172 961
Attributable to:				
Equity holders of A-shares		77 001	81 627	172 951
B-share holder		10	10	10
Earnings per share in kroons	6	3,85	4,08	8,65

CONDENSED CASH FLOW STATEMENT

FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(thousand EEK)

	6 months		Year ended
	2005	2004	31 December 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	139 524	134 922	254 918
Adjustment for depreciation	38 684	38 998	77 736
Adjustment for income and expenses from constructions	-2 844	-4 027	-5 306
Other finance income and expenses	-1 307	-1 126	-3 835
Profit from sale of fixed assets	-11 873	-293	-2 844
Expensed fixed assets	178	24	3 670
Capitalization of operating expenses	-11 750	-18 362	-38 974
Movement in current assets involved in operating activities	-12 625	-1 283	-48 978
Movement in liabilities involved in operating activities	2 065	-12 839	-11 045
Interest paid	-29 371	-28 616	-57 513
Total cash flow from operating activities	110 681	107 398	167 829
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of shares of associated company	0	0	6 259
Acquisition of fixed assets	-63 807	-43 306	-72 957
Payment of pipelines financed by construction income	-19 809	-27 626	-60 750
Proceeds from pipelines financed by construction income	29 326	31 109	59 371
Repayments of loans to third parties	0	0	2
Proceeds from sale of and prepayments received for fixed assets	47 100	293	3 799
Proceeds from sale of real estate investments	11 700	2 250	2 250
Interest received	2 367	1 488	2 661
Total cash flow from investing activities	6 877	-35 792	-59 365
CASH FLOWS FROM FINANCING ACTIVITIES			
Received long-term loans	109 571	0	31 293
Repayment of long-term loans	-43 650	-19 001	-19 001
Finance lease payments	-918	-1 630	-2 632
Dividends paid	-112 000	-75 000	-75 000
Income tax on dividends	-35 368	0	-26 277
Total cash flow from financing activities	-82 365	-95 631	-91 617
Change in cash and bank accounts	35 193	-24 025	16 847
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	101 000	84 153	84 153
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	136 193	60 128	101 000



Chairman of the Management Board:

AS TALLINNA VESI

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2003	200 001	387 000	93 394	116 193	104 541	901 129
Transfer of financial year profit to the accumulated profit	0	0	0	104 541	-104 541	0
Dividend	0	0	0	-75 000	0	-75 000
Net profit of the financial year	0	0	0	0	172 961	172 961
31 December 2004	200 001	387 000	93 394	145 734	172 961	999 090
31 December 2003	200 001	387 000	93 394	116 193	104 541	901 129
Transfer of financial year profit to the accumulated profit	0	0	0	104 541	-104 541	0
Dividend	0	0	0	-75 000	0	-75 000
Net profit of the financial period	0	0	0	0	81 637	81 637
30 June 2004	200 001	387 000	93 394	145 734	81 637	907 766
31 December 2004	200 001	387 000	93 394	145 734	172 961	999 090
Transfer of financial year profit to the accumulated profit	0	0	0	172 961	-172 961	0
Transfer of Statutory legal reserve to the accumulated profit	0	0	-73 394	73 394	0	0
Dividend	0	0	0	-112 000	0	-112 000
Net profit of the financial period	0	0	0	0	77 011	77 011
30 June 2005	200 001	387 000	20 000	280 089	77 011	964 101



Chairman of the Management Board:

AS TALLINNA VESI

**NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004**

NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to International Financial Reporting Standards, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.



NOTES TO THE INTERIM ACCOUNTS

FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(thousand EEK)

NOTE 2. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

	Tangible assets in usage				Assets in progress			Intangible assets		Total tangible and intangible non-current assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Unfinished pipelines - new connections	Prepayment for fixed assets	Development costs	Acquired licenses and software	
Acquisition cost at										
31.12.2003	303 802	1 863 685	472 187	14 905	62 797	93 176	8 565	8 375	25 421	2 852 913
Acquisition	0	0	0	0	104 254	54 125	0	0	0	158 379
Sale of fixed assets	-1 462	0	-2 204	-6	0	0	0	0	0	-3 672
Write-off of fixed assets	-205	-2 885	-4 504	-412	0	0	0	0	0	-8 006
Reclassification within balance sheet	331	0	0	0	173	0	-81	0	0	423
Reclassification to expenses	0	0	0	0	-495	-1	0	0	0	-496
Expensed pipelines	0	0	0	0	0	-64 410	0	0	0	-64 410
Reclassification from assets in progress	9 004	38 719	19 416	1 848	-64 095	-3 215	-4 836	1 223	1 936	0
31.12.2004	311 470	1 899 519	484 895	16 335	102 634	79 675	3 648	9 598	27 357	2 935 131
Acquisition	0	0	0	0	60 383	20 487	19 803	0	0	100 673
Sale of fixed assets	-83	-127	-1	0	0	0	0	0	0	-211
Write-off of fixed assets	0	-1 266	-1 857	-89	0	0	0	0	-59	-3 271
Reclassification within balance sheet	0	59	0	0	0	0	0	0	0	59
Reclassification to expenses	0	0	0	0	-50	-3	0	0	0	-53
Expensed pipelines	0	0	0	0	0	-23 888	0	0	0	-23 888
Reclassification from assets in progress	33 739	15 983	26 312	2 139	-70 860	-676	-19 803	3 713	9 453	0
30.06.2005	345 126	1 914 168	509 349	18 385	92 107	75 595	3 648	13 311	36 751	3 008 440
Accumulated depreciation										
31.12.2003	49 466	561 724	248 581	9 669	0	0	0	6 136	6 299	881 875
Depreciation	4 061	27 624	38 874	1 073	0	0	0	905	5 155	77 692
Depreciation of fixed assets sold and written-off (-)	-638	-2 598	-5 129	-385	0	0	0	0	0	-8 750
Reclassification	0	-3	3	0	0	0	0	0	0	0
31.12.2004	52 889	586 747	282 329	10 357	0	0	0	7 041	11 454	950 817
Depreciation	1 930	14 571	17 959	698	0	0	0	1 107	2 413	38 678
Depreciation of fixed assets sold and written-off (-)	-83	-1 314	-1 818	-80	0	0	0	0	-59	-3 354
30.06.2005	54 736	600 004	298 470	10 975	0	0	0	8 148	13 808	986 141
Net book value										
31.12.2003	254 336	1 301 961	223 606	5 236	62 797	93 176	8 565	2 239	19 122	1 971 038
31.12.2004	258 581	1 312 772	202 566	5 978	102 634	79 675	3 648	2 557	15 903	1 984 314
30.06.2005	290 390	1 314 164	210 879	7 410	92 107	75 595	3 648	5 163	22 943	2 022 299

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.

Net balance sheet value of finance leases was 5 189 thousand and 9 628 thousand kroons in 2005 for 6 months and 2004 respectively.

Interest capitalised to fixed assets was 1075 thousand kroons and 1 197 thousand kroons in 2005 for 6 months and 2004 respectively.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS

FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(thousand EEK)

NOTE 3. NET SALES

	6 months 2005	2004	Year ended 31 December 2004
Sales from main operating activities			
Water supply service	133 644	111 321	220 688
Waste water disposal service	115 837	100 790	204 494
Stormwater treatment and disposal service	23 287	22 365	44 731
Fire hydrants service	1 020	980	1 959
Other work and services	2 784	3 330	6 942
Total sales from main operating activities	276 572	238 786	478 814
Revenues from other operating activities			
Water, sewerage and storm water connections construction income	26 732	39 272	69 715
TOTAL NET SALES	303 304	278 058	548 529

100 % of AS Tallinna Vesi revenue was transacted within the Estonian Republic.



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004**

(thousand EEK)

NOTE 4. COSTS AND EXPENSES

	6 months		Year ended
	2005	2004	31 December 2004
Cost of goods sold main operating activities			
Tax on special use of water	-4 855	-4 709	-9 272
Chemicals	-5 197	-4 737	-9 387
Electricity	-12 465	-12 103	-26 151
Pollution tax	-3 887	-3 972	-8 380
Staff costs	-21 398	-23 767	-44 643
Research & development	-51	-36	-85
Depreciation and amortization	-36 263	-36 715	-73 104
Other costs of goods sold	-14 108	-10 490	-24 464
Total cost of goods sold main operating activities	-98 224	-96 529	-195 486
Cost of goods sold other operating activities	6 months		Year ended
	2005	2004	December 2004
Water, sewerage and storm water connections construction cost	-23 888	-35 245	-64 410
Marketing Expenses	6 months		Year ended
	2005	2004	December 2004
Staff costs	-2 318	-2 149	-4 240
Depreciation and amortization	-54	-63	-113
Other marketing expenses	-957	-993	-1 781
Total cost of marketing expenses	-3 329	-3 205	-6 134
General Administration Expenses	6 months		Year ended
	2005	2004	December 2004
Staff costs	-8 045	-7 417	-15 813
IPO bonus	-6 068	0	0
Depreciation and amortization	-2 367	-2 189	-4 520
Other general administration expenses	-13 474	-11 956	-20 406
IPO services	-11 648	0	0
Total cost of general administration expenses	-41 602	-21 562	-40 739

Other income/expenses includes the profits recognised on the sale of fixed assets during the period, the movement of the bad debt provision during the year and provisions recognised and released throughout the financial period. Other expenses include 7 843 thousand kroons IPO costs in 2005.

In total, the results for the six months ended 30 June 2005 include IPO costs of 25 559 thousand kroons, being made up of 19 491 thousand kroons for services and 6 068 thousand kroons for staff bonus costs as referred to above.


 Chairman of the Management Board:

NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(thousand EEK)

NOTE 5. DIVIDENDS	6 months		Year ended
	2005	2004	31 December 2004
Dividend declared during the period	112 000	75 000	75 000
Dividend paid during the period	112 000	75 000	75 000
Income tax on dividends declared	-35 368	-26 351	-26 351
The income tax paid on dividends received	0	74	74
The income tax accounted	-35 368	-26 277	-26 277

The income tax rates were 26/74 and 24/76 respectively in 2004 and 2005.

NOTE 6. EARNINGS AND DIVIDENDS PER SHARE

	6 months		Year ended
	2005	2004	31 December 2004
Earnings per share from continuing operations:			
Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights)	77 001	81 627	172 951
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000	20 000 000
Earnings per share in kroons	3,85	4,08	8,65
Dividends per A-share in kroons	5,60	3,75	3,75
Dividends per B-share in kroons	10 000,00	10 000,00	10 000,00

NOTE 7. REDUCTION IN STATUTORY LEGAL RESERVE

The shareholders reduced the statutory legal reserve from 93 394 thousand kroons to 20 000 thousand kroons on 3 February 2005. The share capital was reduced in 2002, but the statutory legal reserve, which must be equal to at least 10% of the share capital, was not revised at this time.

NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(thousand EEK)

NOTE 8. RELATED PARTIES

Transactions with related parties are considered to be transactions with parent, subsidiary and associated companies, members of the Supervisory Board and Management Board, their relatives and the companies in which they hold majority interest. Dividend payments are indicated in Statements of Changes in Equity.

The transactions with related parties in 2004 and 2005 and respective balances as of 30.06.2004 and 30.06.2005 are recorded as follows:

	Tallinn City Government and related boards	United Utilities (Tallinn) B.V. and United Utilities International*
2004 for 6 months		
Transactions recorded to AS Tallinna Vesi Working Capital of Balance Sheet		
Accrued income and prepaid expenses	0	4 611
Accounts payable - short-term trade and other payables	0	11 802
Transactions recorded to AS Tallinna Vesi Income Statement		
Net sales	41 719	0
General administration expenses	0	6 129
Transactions recorded to the other accounts of AS Tallinna Vesi Balance Sheet		
Tangible non-current assets incl unfinished constructions and new connections	0	7 111

2005 for 6 months

Transactions recorded to AS Tallinna Vesi Working Capital of Balance Sheet		
Accrued income and prepaid expenses	0	4 708
Accounts payable - short-term trade and other payables, incl. dividends	0	2 636
Transactions recorded to AS Tallinna Vesi Income Statement		
Net sales	32 789	0
General administration expenses	0	5 079
Transactions recorded to the other accounts of AS Tallinna Vesi Balance Sheet		
Tangible non-current assets incl unfinished constructions and new connections	0	7 046

The agreed market prices were implemented in transactions with related parties.

*United Utilities (Tallinn) B.V. holds 35.3% of the Company. The ultimate controlling parties of United Utilities (Tallinn) B.V. are EBRD and United Utilities Plc. United Utilities International Ltd. is owned by United Utilities Plc.

	6 months		Year ended 31 December
	2005	2004	2004
The fees paid to management board members excluding social tax	1 061	1 090	2 059
The fees paid to supervisory board members excluding social tax	11	5	18